



Cost of Service Issues

Suburban Rates

Low-Income Rates

Network Rates

Gradualism



Seattle City Light

Suburban Rates

Background

- Burien, Lake Forest Park, SeaTac, Shoreline
 - New franchise agreements 1998-1999
 - SCL pays 6% of revenue from power portion of rates to suburban governments
 - Suburban governments may also choose to receive 6% of non-power portion of rates
 - SCL may (and does) charge suburban customers higher rates (+8% on power portion of rates allowed)
 - SCL may also (but does not yet) charge higher rates for non-standard levels of service (e.g., underground)

Suburban Rate Differential

- Rates effective 12/24/99 included maximum differential
 - 8% of power portion, about 4% of total
- Differential not maintained as rates rose in 2001
 - Increases applied as \$/MWh for all classes
 - Differential declined as a % of power portion
- Restoring differential to maximum adds \$1/MWh to suburban rates (about 1.5%)

Suburban Rates

Policy Alternatives (compared to current rates)

- Increase the suburban rate differential to the maximum allowed by franchises
- Maintain the current suburban rate differential
- Eliminate the suburban rate differential

Low-Income Rates

Background

- City policy = 50% discount on utility rates
- Eligibility by Human Services Dept.
 - Elderly/disabled: <70% state median income
 - Monthly income-4 person household = \$3,889
 - Other low-income: <200% federal poverty level
 - Monthly income-4 person household = \$3,142
- Current SCL average discount: about 60%
 - Low-income exempted from some of 2001 increases

Low-Income Rates

Policy Alternatives

- Return to 50% discount immediately
 - Low-income average bill increase of about 28%
 - Non-low-income rates lower by \$850,000 (-0.1%)
- Return to 50% discount gradually (e.g., 3 years)
 - Low-income average bill increase 8-9% per year
 - Non-low-income rates higher than in above option
- Maintain current % discount or all blocks @ 60%
 - Rates for other customers higher than with 50%

Federal Housing Programs & Low-Income Rates

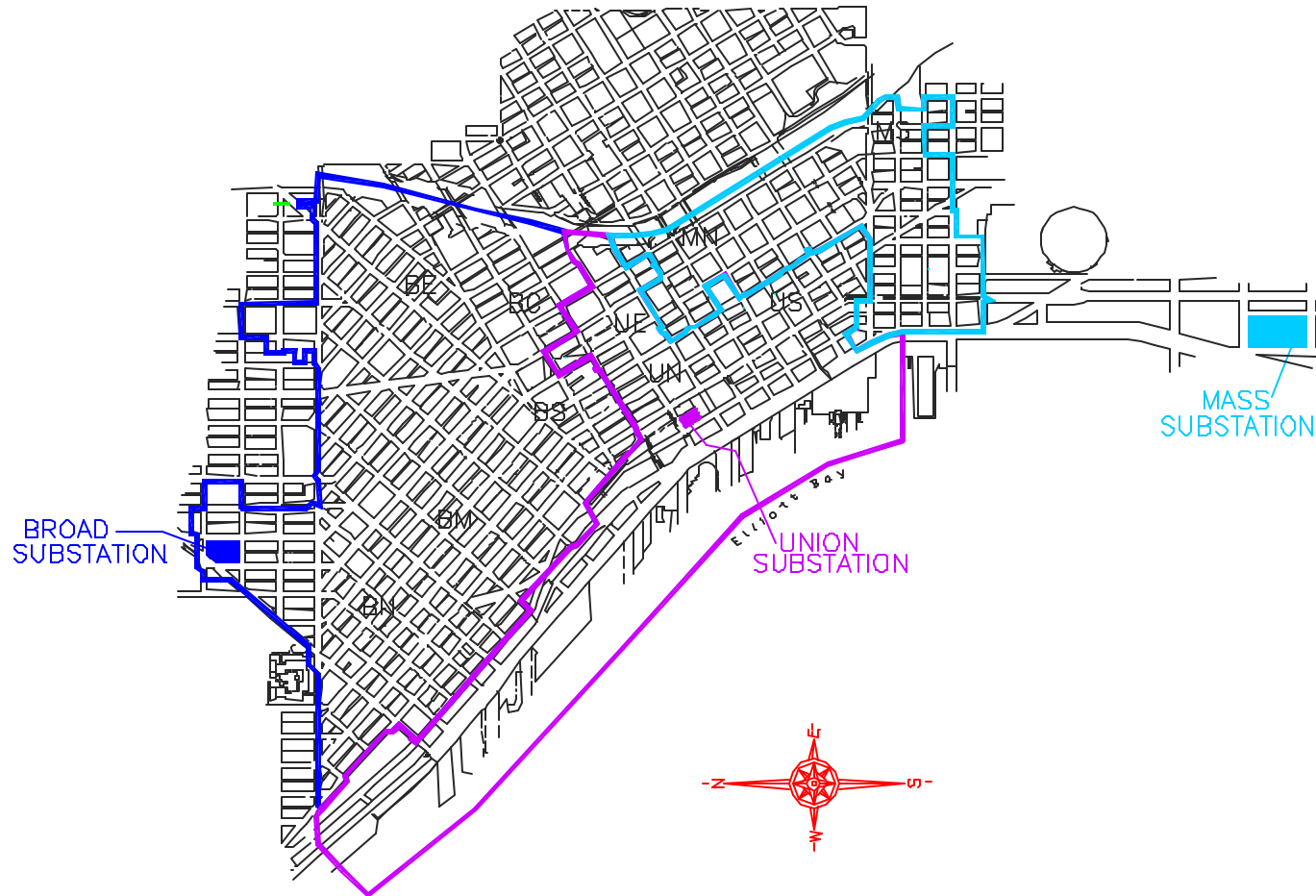
- Participants in federally subsidized housing programs are not eligible for L-I rates
 - Benefit of discounted rate would be offset by reduction in benefits reaching the participant
 - Result of federal formulas for computing subsidy
- May no longer be true of federal Section 8 program
 - SCL working with Housing Authority
 - If Section 8 participants are made eligible, participation in L-I could double.

Network Rates

Background

- Downtown Seattle, First Hill, University District = redundant/more reliable service
- Downtown = most costly network
- Last rate case assigned part of higher cost differential to Medium & Large downtown
 - 25% of differential in 2000-2001, 50% in 2002
 - 2000-2001 rate differential of 6-8%; 2002 12-15%
 - Residential and small commercial customers excluded

Downtown Network



Network Rates

Competing Considerations

- Arguments for higher network rates
 - Equity: higher cost customers pay higher rates
 - Economic efficiency: charging same rate retards normal growth in less expensive non-network areas and encourages excessive growth in network areas
- Arguments against higher network rates
 - State Growth Mgmt. Act promotes concentrated urban economic development (= network areas in Seattle)
 - Population served is larger than just network customers

Network Rates

Policy Alternatives

- Remove/reduce network rate differential
- Maintain current 50% cost diff. pass-thru
- Increase cost diff. pass-thru to 75-100%
- Expand higher network rates to First Hill and University District
- Charge higher rates to residential and small commercial customers in network areas

Network Rates

Policy Alternative Results

- Reducing or eliminating network differential increases rates paid by non-network customers
- Increasing network differential or expanding to more customer classes/areas decreases rates paid by non-network customers

Gradualism

- Rate stability is a major rate-setting objective
- If cost allocations give some classes increases (or decreases) far above the average, then gradualize
 - Limit % increases/decreases to a multiple of the average (e.g. 1.25, 1.50) or to a fixed % (e.g. 10%)
 - Zero-sum game: costs shifted to other classes
 - Makes rate changes more uniform and gradual

Recent Gradualism

- 2000-2002 Rates
 - Rate increases capped at 6% in 2000, 9% in 2002
 - Average increase: 3.1% in 2000, 3.2% in 2002
 - No decreases in class average rates allowed.
 - Gradualism applied before suburban, network, streetlight adjustments
 - Network cost differential phased in
 - 25% in 2000-2001
 - 50% in 2002

Recent Gradualism (cont.)

- 1997-1998 Rates
 - Rate increases capped at 3% max. 1996-1998, rates for 1997 went half-way to 1998
 - Average system increase: 0% both years
 - Class average rate changes: -8.2% to +3.0%